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PROPOSED LEGISLATION—"MEDICARE CATASTROPHIC ILLNESS COVERAGE ACT"

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A DRAFT OF PROPOSED LEGISLATION TO PROVIDE FOR MEDICARE CATASTROPHIC ILLNESS COVERAGE AND FOR OTHER PURPOSES

FEBRUARY 24, 1987.—Message and accompanying papers referred to the Committees on Ways and Means and Energy and Commerce, and ordered to be printed

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To the Congress of the United States:

I am pleased to transmit today for your immediate consideration and enactment the "Medicare Catastrophic Illness Coverage Act." This landmark legislation would provide protection under the Medicare program for elderly and disabled Americans who suffer an acute care catastrophic illness. The legislation would help provide peace of mind for 30 million Americans without adding to the tax burden of their children.

We all know family, friends, or neighbors who have suffered a devastating acute care illness that has destroyed their financial security. A catastrophic acute care illness requires treatment so costly that families can only pay for it by impoverishing themselves. A catastrophic illness is financially devastating and requires personal sacrifices that can haunt families for the rest of their lives.

Elderly Americans require more medical care than younger persons. Average health care spending for an elderly person in 1984 was $4,200, compared to $1,100 for a person under 65.

Virtually all the elderly have acute care insurance protection under Medicare. About two-thirds also have private supplementary insurance, or Medigap. These two types of insurance together still have some significant limitations in coverage. As a result, unpredictable health care expenses loom large in the personal budgets of the elderly.

There are gaps in Medicare as currently structured for acute care expenses. Hospital coverage is limited. After 60 days of hospital care, a Medicare patient begins to make increasingly costly payments—rising from $130 per day for days 61 through 90, to $260 per day for days 91 through 150, to the full cost of care for more than 150 days in the hospital. On top of this, there is a required 20 percent co-payment for all physician services covered by Medicare. The Medicare program, then, requires the greatest payments from those with the most serious health problems.

About 13 percent of the elderly are also covered by Medicaid, a health program for the poor. Medicaid is State-operated, and many States limit the amount and kind of services they will pay for under the program.

The proposed "Medicare Catastrophic Illness Coverage Act" would provide improved acute care coverage for the elderly and disabled by restructuring the Medicare program. The proposal would set an annual limit on out-of-pocket expenses for approved charges, with the additional coverage financed by a modest additional premium to be paid by beneficiaries.

Under the proposed legislation, a $2,000 out-of-pocket limit for Medicare-proposed expenses would be established. Beneficiaries would be assured that once they had incurred out-of-pocket ex-

penses of $2,000 for approved charges, the Medicare program would pay for all remaining covered services.

As part of the added protection, all hospital and skilled nursing facility coinsurances would be eliminated. Further, no beneficiary would ever pay more than two hospital deductibles in any year. Skilled nursing facility care would be fully covered for 100 days each year. The complicated "spell-of-illness" concept would be eliminated. The current deductible and coinsurance for physician-related services would not be changed until the $2,000 limit was reached.

The proposal would be completely financed by a modest addition to the existing monthly Supplementary Medical Insurance (part B) premium. Any beneficiary electing the optional part B would be automatically covered for catastrophic expenditures. The catastrophic expense cap would be adjusted annually to reflect changes in program costs. The new premium would cover the full costs of the catastrophic illness benefit in an actuarially sound manner. Consequently, this new benefit would not require the infusion of additional general revenues nor exacerbate the current budget deficit.

The legislation that we are advancing today addresses a fundamental gap in the health insurance protection of the elderly and disabled. I am asking the Congress to give elderly Americans a health insurance plan that fights the fear of catastrophic acute care illness. For too long, many of our senior citizens have been faced with making an intolerable choice—a choice between bankruptcy and death. This proposed legislation would help solve this tragic problem. I urge you to join me in facing the challenge before us and to consider favorably our approach to catastrophic illness protection under Medicare.

RONALD REAGAN.

THE WHITE HOUSE, *February 24, 1987.*

A BILL To provide for Medicare catastrophic illness coverage and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE AND REFERENCES IN ACT

SECTION 1. (a) This Act may be cited as the "Medicare Catastrophic Illness Coverage Act".

(b) The amendments in this Act apply to the Social Security Act.

REVISIONS IN HOSPITAL INSURANCE PROGRAM

SEC. 2. (a) Section 1812(a) is amended—

(1) by revising paragraph (1) to read as follows:

"(1) inpatient hospital services;", and

(2) in paragraph (2), by striking out "spell of illness" and inserting instead "year".

(b) Section 1812(b) is amended—

(1) in the matter preceding paragraph (1), by (A) striking out "spell of illness" and inserting instead "year" and (B) striking out "(subject to subsection (c))",

(2) by striking out paragraph (1),

(3) in paragraph (2), by striking out "spell" each place it occurs and inserting instead "year", and

(4) by renumbering paragraphs (2) and (3) as (1) and (2), respectively.

(c) Section 1812(c) is repealed.

(d) Section 1812(e) is amended by striking out "subsections (b) and (c), inpatient hospital services, inpatient psychiatric hospital services," and inserting instead "subsection (b), inpatient psychiatric services".

(e) Section 1812(g) is amended by striking out "definition of 'spell of illness', and for definitions of other" and inserting instead "definitions of".

(f) Section 1813(a) is amended—

(1) in the first sentence of paragraph (1), by striking out "any spell of illness" and inserting instead "each of the first two admissions in a year",

(2) by striking out the second sentence of paragraph (1), and

(3) by striking out paragraph (3).

(g) Section 1813(b)(3) is amended to read as follows:

"(3) The inpatient hospital deductible for a year shall apply to the deduction under subsection (a)(1) for the year in which the first day of inpatient services occurs in an admission.".

(h) Section 1832(b) is amended to read as follows:

"(b) For definitions of 'medical and other health services' and other terms used in this part, see section 1861.".

(i) Section 1861(a) is repealed.

(j) Section 1861(y) is amended—

(1) in paragraph (1), by striking out "(except for purposes of subsection (a)(2))",

(2) in paragraph (2), by (A) striking out "spell of illness" each place it occurs and inserting instead "year" and (B) striking out "spell" each place it occurs and inserting instead "year",

(3) by striking out paragraph (3), and

(4) by renumbering paragraph (4) as (3).

(k) Section 1866(a)(2)(A)(i) is amended by striking out "(a)(3), or (a)(4), section 1833(b), or section 1861(y)(3)" and inserting instead "section 1813(a)(4), or section 1833(b)".

CEILING FOR BENEFICIARY EXPENSES

SEC. 3. (a) Section 1832(a) is amended—

(1) by striking out "and" at the end of paragraph (1),

(2) by substituting "; and" for the period at the end of paragraph (2), and

(3) by adding at the end the following:

"(3) entitlement to have payment made to him or on his behalf (subject to the provisions of this part) of the amounts specified in section 1833(a)(5).".

(b) Section 1833(a) is amended—

(1) by striking out "and" at the end of paragraph (3),

(2) by substituting "; and" for the period at the end of paragraph (4), and

(3) by adding at the end the following:

"(5) the amounts by which the beneficiary cost sharing amounts for items and services furnished in a year (but substituting that period of the last quarter of the preceding year that occurs before the cost sharing limitation for that preceding year is reached (if at all) for the last quarter of the year in question, if the amounts are greater) exceed the cost sharing limitation for that year.".

(c) The first sentence of section 1833(b) is amended—

(1) by striking out "and" at the end of clause (3), and

(2) by inserting before the period the following: ", and (5) such deductible shall be included in the beneficiary cost sharing amounts".

(d) Section 1833(d) is amended by inserting "(except as provided by subsection (a)(5))" before the period.

(e) Section 1833 is further amended by adding at the end the following:

"(m) The Secretary shall, during September of 1988 and of each year thereafter, determine and promulgate the cost sharing limitation (as defined in section 1861(a)(2)) for the succeeding calendar year.".

(f) Section 1861 (as amended by section 2(i) of this Act) is further amended by inserting before subsection (b) the following:

"(a)(1) The term 'beneficiary cost sharing amounts' means the amounts of expenses that an individual who is covered under the insurance program established by part B incurs that are—

"(A) amounts specified in the first two sentences of section 1866(a)(2)(A) (but for an individual who is not also covered

under the insurance program established by part A, only those amounts for items and services covered under part B), and

"(B) amounts equal to the difference between the total amounts that constitute payment in full under part B when a physician or other entity that is not a provider of services accepts (or would accept) assignment (or otherwise agrees to accept a specified amount) and the amounts payable from the Federal Supplementary Medical Insurance Trust Fund for those items and services (other than under section 1833(a)(5)).

"(2) The term 'cost sharing limitation' means—

"(A) for 1988, $2000, and

"(B) for 1989 and later years, $2000 increased (or decreased) by the percentage increase (or decrease) in total per capita expenses of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund for the second preceding year over those for 1986 (but, if not a multiple of $10, rounded to the nearest multiple, or, if midway between two multiples, rounded to the next higher).".

(g) Section 1866(a)(2)(A) is amended by adding at the end the following: "A provider of services may not impose a charge under this subparagraph to the extent payment is made to the provider of services under section 1832(a)(3).".

INCREASE IN SUPPLEMENTARY MEDICAL INSURANCE PREMIUM

SEC. 4. (a) Section 1839(a)(1) is amended to read as follows:

"SEC. 1839. (a)(1) The Secretary shall, during September of 1987 and of each year thereafter, determine the monthly actuarial basic rate and the monthly actuarial catastrophic illness rate for enrollees age 65 and over which shall be applicable for the succeeding calendar year. The monthly actuarial basic rate shall be the amount the Secretary estimates to be necessary so that the aggregate amount for the calendar year with respect to those enrollees age 65 and over will equal one-half of the total of the benefits and administrative costs which he estimates will be payable from the Federal Supplementary Medical Insurance Trust Fund for services performed and related administrative costs incurred in such calendar year with respect to such enrollees (excluding benefits payable under section 1833(a)(5)). The monthly actuarial catastrophic illness rate shall be the amount the Secretary estimates to be necessary so that the aggregate amount for the calendar year with respect to those enrollees age 65 and over will equal the total of the benefits and administrative costs which he estimates will be payable from the Federal Supplementary Medical Insurance Trust Fund for services performed and related administrative costs incurred in such calendar year with respect to such enrollees under section 1833(a)(5), and from the Federal Hospital Insurance Trust Fund for the changes (under section 2 of the Medicare Catastrophic Illness Coverage Act) in services performed in such calendar year with respect to individuals age 65 and over who are covered under the insurance program established by part A. In calculating the monthly actuarial rates, the Secretary shall include appropriate amounts for a contingency margin.".

(b) Section 1839(a)(2) is amended by striking out "1983" and inserting instead "1987".

(c) Section 1839(a)(3) is amended—

(1) in the first sentence, by striking out "1983" and inserting instead "1987",

(2) by revising the second sentence to read as follows: "The monthly premium shall (except as otherwise provided in subsection (e)) be equal to the sum of—

"(A) a weighted average of the monthly actuarial catastrophic illness rate for enrollees age 65 and over, determined according to paragraph (1) of this subsection, and that rate for disabled enrollees under age 65, determined according to paragraph (4) of this subsection, for that calender year, and

"(B) the smaller of—

"(i) the monthly actuarial basic rate for enrollees age 65 and over, determined according to paragraph (1) of this subsection, for that calendar year, or

"(ii) the monthly payment rate most recently promulgated by the Secretary under this paragraph, increased by a percentage determined as follows: The Secretary shall ascertain the primary insurance amount computed under section 215(a)(1), based upon average indexed monthly earnings of $900, that applied to individuals who became eligible for and entitled to old-age insurance benefits on November 1 of the year before the year of the promulgation. He shall increase the monthly premium rate by the same percentage by which that primary insurance amount is increased when, by reason of the law in effect at the time the promulgation is made, it is so computed to apply to those individuals for the following November 1.", and

(3) in the third sentence, by striking out "amount of an adequate actuarial rate for enrollees age 65 and over as provided in paragraph (1)" and inserting instead "amounts of adequate actuarial basic and catastrophic illness rates for enrollees as provided in paragraphs (1) and (4)".

(d) Section 1839(a)(4) is amended to read as follows:

"(4) The Secretary shall also, during September of 1987 and of each year thereafter, determine the monthly actuarial basic rate and the monthly actuarial catastrophic illness rate for disabled enrollees under age 65 which shall be applicable for the succeeding calendar year. The monthly actuarial basic rate shall be the amount the Secretary estimates to be necessary so that the aggregate amount for the calendar year with respect to disabled enrollees under age 65 will equal one-half of the total of the benefits and administrative costs which he estimates will be payable from the Federal Supplementary Medical Insurance Trust Fund for services performed and related administrative costs incurred in such calendar year with respect to such enrollees (excluding benefits payable under section 1833(a)(5)). The monthly actuarial catastrophic illness rate shall be the amount the Secretary estimates to be necessary so that the aggregate amount for the calendar year with respect to disabled enrollees under age 65 will equal the total of the benefits and administrative costs which he estimates will be payable from the Federal Supplementary Medical Insurance Trust Fund for serv-

ices performed and related administrative costs incurred in such calendar year with respect to such enrollees under section 1833(a)(5), and from the Federal Hospital Insurance Trust Fund for the changes (under section 2 of the Medicare Catastrophic Illness Coverage Act) in services performed in such calendar year with respect to disabled individuals under age 65 who are covered under the insurance program established by part A. In calculating the monthly actuarial rates, the Secretary shall include appropriate amounts for a contingency margin.".

(e) Section 1839(e)(1) is amended—

(1) by striking out "monthly premium" and inserting instead "portion of the monthly premium otherwise determined under subsection (a)(3)(B)", and

(2) by inserting "basic" after "actuarial".

(f) Section 1839(f)(1) is amended by striking out "1985, 1986, or 1987, the monthly permium" and inserting instead "1987, the portion of the monthly premium otherwise determined under subsection (a)(3)(B)".

(g) Section 1839(f)(2) is amended—

(1) in the matter preceding subparagraph (A), by (A) striking out "1986, 1987, or" and (B) striking out "monthly premium" the second place it occurs and inserting instead "portion of the monthly premium otherwise determined under subsection (a)(3)(B)", and

(2) in subparagraph (A), by striking out "monthly premium amount determined under subsection (a)(2)" each place it occurs and inserting instead "portion of the monthly premium amount determined under subsection (a)(3)(B)".

(h) Section 1841 is amended by adding at the end the following:

"(j) The portion of the premium amounts that is determined under section 1839(a)(3)(A) shall be treated as a separate account. Amounts paid under section 1832(a)(3) or transferred under subsection (k) of this section shall come from that portion.

"(k) There shall be transferred from time to time from the Trust Fund to the Federal Hospital Insurance Trust Fund amounts from the premium under this part that are attributable to the changes (under section 2 of the Medicare Catastrophic Illness Coverage Act) in services performed in such calendar year with respect to individuals who are covered under the insurance program established by part A.".

(i) Section 1844(a)(1)(A)(i) and section 1844(a)(1)(B)(i) are each amended by striking out "twice the dollar amount of the actuarially adequate rate" and inserting instead "the sum of the dollar amount of the actuarially adequate catastrophic illness rate and twice the dollar amount of the actuarially adequate basic rate".

(j) Section 1876(a)(5) is amended—

(1) in the matter preceding subparagraph (A), by striking out "200 percent of", and

(2) in subparagraphs (A)(ii) and (B)(ii), by striking out "monthly actuarial rate" and inserting instead "the sum of the monthly actuarial catastrophic illness rate and twice the monthly actuarial basic rate".

EFFECTIVE DATE

SEC. 5. The amendments made by the preceding sections apply to items and services furnished after, and premiums for months after, 1987 (and do not, for purposes of the parenthetical clause in section 1833(a)(5) of the Social Security Act, apply to items and services furnished during the last three months of 1987).

SUMMARY OF PROPOSED MEDICARE CATASTROPHIC ILLNESS COVERAGE ACT

Section 1 would assign the draft bill the short title "Medicare Catastrophic Illness Coverage Act".

Section 2 would revise the Medicare Hospital Insurance (part A) program. Medicare would pay for an unlimited number of hospital days for covered services. There would be no coinsurance for inpatient hospital services or for services furnished by a skilled nursing facility. The "spell of illness" methodology would be eliminated. Instead of the beneficiary paying an inpatient hospital deductible for each spell of illness, a beneficiary would be liable for the deductible for each of the first two inpatient hospital admissions in a year. Skilled nursing facility care would be provided for up to 100 days each year.

Section 3 would set an annual ceiling on beneficiary expenses under Medicare. An individual would be required to enroll under the Medicare Supplementary Medical Insurance Program (part B) to be protected by the ceiling. The ceiling would equal $2,000 of the beneficiary's out of pocket expenses for 1988, and would be indexed in the future by the percentage change in total Medicare per capita expenses. Out of pocket expenses would include the part A hospital deductibles, any coinsurance under the hospice benefit, the part B deductible, and coinsurance under part B. Amounts above the full Medicare level paid to physicians and others who did not accept assignment would not be included.

Section 4 would initially increase the part B premium to pay for the costs of the new catastrophic insurance, including changes in the part A program under section 2 and the costs of the annual ceiling set by section 3. The current part B premium would continue to be redetermined annually. After the initial year, the added premium amount for catastrophic protection would also be adjusted annually to ensure that the added catastrophic protection remains budget neutral. Congress may wish to consider adding a budget-neutral hold-harmless adjustment for 1989 and later years to ensure that the monthly Social Security benefit paid to an individual never actually decreases. To retain the sound financing and budget-neutral character of this proposal, any such hold-harmless adjustment should raise the same total premium income as would be generated without a hold-harmless.

Section 5 would apply the draft bill's provisions as of the beginning of calendar year 1988.

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